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Fact Sheet for the Chairman, Committee on Appropriations, House of Representatives

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FEDERAL ASSETS

Information on Completed and Proposed Sales

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GAO

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Resources, Community, and
Economic Development Division

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The Honorable Jamie L. Whitten
Chairman, Committee on Appropriations
House of Representatives

Dear Mr. Chairman:

This fact sheet provides the information you requested on May 24, 1988, regarding the sales of federal assets that have been included in the President's budget proposals to the Congress since 1984. The information requested concerns primarily (1) identification of the assets; (2) identification of the agencies involved; (3) legal authorization for the sale; (4) reasons for the sale; (5) the method for determining the asking price and, if a contractor was used, the fee paid; (6) the extent of competition, if any; and (7) the selling or asking price. The information you requested on the proposed sale of the Elk Hills, California, Naval Petroleum Reserve was provided to you in our report Naval Petroleum Reserve No. 1: Efforts to Sell the Reserve (GAO/RCED-88-198, July 28, 1988).

Section 1 contains information on assets sold—Consolidated Rail Corporation (Conrail), Dulles and National Airports, loan assets, surplus national stockpile materials, and surplus real property. Section 2 contains information on other assets proposed for sale—National Railroad Passenger Corporation (Amtrak), the Great Plains Coal Gasification Project, the Helium Program, Power Marketing Administrations, the Transportation Systems Center, and uranium enrichment facilities.

In summary, for assets sold we found the following information:

- The Department of Transportation (DOT) received $1.575 billion from the sale of 58,750,000 shares of stock in Conrail.
- Under the Federal Aviation Administration's lease of Dulles and National Airports to the Washington Metropolitan Airport Authority, the Authority will make a $3 million annual payment to the U.S. Treasury for 50 years. Also, the Authority made a one-time payment of $23.6 million to cover the unfunded pension liabilities for airport employees remaining in the Federal Retirement System.
- Loan assets with unpaid principals of $7.279 billion produced proceeds of $4.649 billion from sales by various federal agencies through July 29, 1988.
- The General Services Administration's (GSA) disposal of national stockpile materials during fiscal years 1985-88 (through May 31, 1988)

totaled $335 million, including the transfer of $152 million in silver to the Department of the Treasury.

- During fiscal years 1985-87, GSA sold 933 surplus real properties for $241 million; 77 of these properties were sold for more than a million dollars each. GSA reported that the sale prices for these 77 properties averaged 157 percent of the appraised value.
- Special legislation was needed to authorize the sale of Conrail, Dulles and National Airports, and the loan assets. The authority for the disposal of surplus stockpile material and real property is contained in long-standing legislation.

Regarding assets proposed for sale, we found the following information:

- DOT has invested more than $3 billion in the assets of Amtrak. In fiscal year 1987, the Congress prevented the establishment of a commission to study strategies on how best to proceed with the disposal of Amtrak. DOT has not actively pursued the sale of Amtrak's assets, even though disposal has been proposed in the President's budgets for the past 4 fiscal years.
- The Department of Energy (DOE) has selected a buyer for the Great Plains Coal Gasification Project and expects to complete the sale by September 30, 1988. DOE is required to forward a detailed description of the sale terms to the Congress for a mandated 30-day review before the agreement can become effective. According to DOE, the total value of the offer to the government could be as high as $1.8 billion over the next 21 years—based on an initial cash payment, profit sharing, federal tax revenues and credits, and funds in the project's cash reserve. The actual value will vary with inflation and gas prices.
- A contractor hired by the Department of the Interior in 1987 developed three alternatives for the disposal of the Helium Program and estimated the program's value to be from $193 million to $327 million. A Secretarial Issue Document is being prepared that will consider these alternatives and comments thereon by representatives of the helium industry and other interested parties.
- DOE is currently negotiating the sale of the Alaska Power Administration. Proceeds of between $89 million and $100 million are anticipated. The Congress has not yet acted on bills introduced in the House and Senate to authorize a study of the feasibility of selling the Southeastern Power Administration.
- The Congress has not yet acted on legislation proposed by DOT to authorize the study of alternative methods of transferring the Transportation Systems Center in Cambridge, Massachusetts, to the private sector.

- The Congress is currently considering legislation to establish a government corporation to take over and manage DOE's uranium enrichment facilities.

In addition to these actual and proposed asset sales, section 3 contains information on two recent major land exchanges proposed by the Department of the Interior. While such exchanges are not technically "asset sales," they can result in the disposal of federal assets. The land exchanges proposed by Interior involve (1) the exchange of the oil and gas rights on about 166,000 acres in the Arctic National Wildlife Refuge for about 896,000 acres of Native-owned lands in seven Alaska wildlife refuges and (2) the exchange of land used by the Phoenix Indian School for about 118,000 acres of privately owned land near the Big Cypress National Preserve in Florida. We have reviewed these exchanges and have reported our concerns about going forward with them as currently proposed.

"Related GAO Products" identifies reports and testimonies on many of the assets involved in the sales and proposed sales discussed in this report.

To gather the information requested, we reviewed the President's budget proposals to the Congress for fiscal years 1985-89 and discussed the proposals with officials of the Office of Management and Budget, Congressional Research Service, and Congressional Budget Office. We reviewed records and/or interviewed officials of the Departments of Agriculture, Commerce, Defense, Education, Energy, Health and Human Services, Housing and Urban Development, Interior, and Transportation, the General Services Administration, the Small Business Administration, and the Veterans Administration. To provide you this fact sheet in an expeditious manner, as you requested, we verified information provided by agency officials only if documentary evidence was readily available. In addition, the information contained in this fact sheet was discussed with agency officials, who agreed with the facts presented.

One other asset sale the President's fiscal year 1989 budget proposes to promote is the sale of defaulted properties that have come into the possession of the Department of Housing and Urban Development (HUD) under the Federal Housing Administration's multifamily insurance program. While the sale of defaulted multifamily properties was discussed in the budget in a section identifying pilot privatization projects, HUD has had the authority to dispose of such properties for many years. By

their very nature, these properties are not federal assets until the mortgagee defaults and HUD takes possession of the property to protect the financial interest of the federal government. HUD holds these properties only until they can be sold. Accordingly, it appears that these properties do not fit under the universe of proposed asset sales that prompted your request, so we have not gathered any information on these properties.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this fact sheet until 30 days from the date of this letter. At that time we will send copies to the Office of Management and Budget, the Congressional Research Service, the Congressional Budget Office, the various departments and agencies involved, and others upon request.

Major contributors to this fact sheet are listed in appendix I.

Sincerely yours,

J. Dexter Peach

J. Dexter Peach
Assistant Comptroller General

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Abbreviations

ANWR	Arctic National Wildlife Refuge
APA	Alaska Power Administration
BLM	Bureau of Land Management
DOE	Department of Energy
DOT	Department of Transportation
EDA	Economic Development Administration
FmHA	Farmers Home Administration
FRA	Federal Railroad Administration
GAO	General Accounting Office
GSA	General Services Administration
HUD	Department of Housing and Urban Development
OMB	Office of Management and Budget
PMA	Power Marketing Administration
RFP	request for proposal
SEPA	Southeastern Power Administration
TSC	Transportation Systems Center
VA	Veterans Administration

Federal Assets Sold

This section provides, to the extent that it was available, the information requested regarding federal assets that have been proposed for sale in the President's budget proposals to the Congress since 1984 and that have now been sold. To avoid repetition, the information presented for loan assets, surplus national stockpile materials, and surplus real property is for assets both sold and proposed for sale, because there have been sales of these assets in the past and there will be other sales of these assets in the future. The information presented for Conrail and Dulles and National Airports is identified directly with the items requested, whereas the information for the other assets sold is presented in narrative fashion with supporting tables.

Consolidated Rail Corporation (Conrail)

1. The asset. Conrail was created in 1976 as a consolidation of six bankrupt or failing railroads: Penn Central, Central of New Jersey, Erie Lackawanna, Lehigh Valley, Lehigh and Hudson River, and Reading Railroad.

2. The agency making the sale and the date of the sale. The Department of Transportation (DOT) made a public offering of stock in Conrail on March 26, 1987.

3. Specific legal authorization claimed for the sale. Original legal authority was provided by the Northeast Rail Service Act of 1981, which authorized DOT to sell Conrail. DOT favored selling to a single buyer whose financial strength would ensure Conrail's future in the private sector. However, some members of Congress favored a public stock offering. On October 21, 1986, Congress provided authority for the public offering through its passage of the Conrail Privatization Act, which was a part of the Omnibus Reconciliation Act of 1986 (P.L. 99-509), title IV, sections 4011-4013.

4. How the asking price of the asset was determined and by whom. Pursuant to criteria set forth in the Conrail Privatization Act, the Secretary of Transportation selected six investment banks to serve as colead managers for the sale of the government's interest in Conrail. The investment banks selected were Goldman, Sachs & Co., The First Boston Corp., Merrill Lynch, Morgan Stanley & Co., Salomon Brothers Inc., and Shearson Lehman Brothers Inc. The Secretary of Transportation designated Goldman, Sachs & Co. to coordinate and administer the public offering of Conrail stock.

When shares of stock are sold, an underwriter assumes the risk of the public offering by guaranteeing a minimum price for the shares or securities being sold. In effect, the underwriter purchases the shares for resale either to investors or to qualified dealers acting as retail agents for the underwriter. To spread the risk of the undertaking, the managing underwriter will invite other investment banks to participate in the offering (although in the case of the Conrail sale, these other banks were chosen by DOT), forming an underwriting syndicate. As compensation for their services, the underwriters may negotiate a per share remuneration prior to the public offering (as was the case for the Conrail sale), or they may receive a percentage of the issue spread (the difference between what the underwriters paid for the shares and the price at which they are resold to the public).

A primary function of the underwriters is to create a preliminary prospectus for the market of the stock issue and develop a range estimate of the final stock price. In performing the requisite market analysis, the underwriters consider several factors, including the general health of the company and industry, as well as the market price of recent offerings by comparable companies. Potential interest in the offering is also determined partially through discussions with dealers, while prospective market prices are often estimated through the institutional market, which includes insurance companies and savings and loan institutions.

5. If the price was determined by a contractor, the contractor's name and amount paid by the agency for the contract. The underwriters received $1.19 per share, or a total of about $70 million, for underwriting the sale.

6. Was there competition and, if so, all competitors and their offers for the asset. Not applicable.

7. Selling price accepted and name of bidder. As a result of the public offering, 58,750,000 shares were underwritten at $28 per share. This price is within the $26-29 per share price projected in the underwriters' March 16, 1987, amended preliminary prospectus. The net proceeds to the government from the offering were $1.575 billion, or $26.81 per share.

Dulles International and Washington National Airports

1. The asset. Dulles and National Airports, including access highways (Dulles Airport Access Highway and Right-of-Way, including the extension between the interstate routes I-495 and I-66) and related facilities.

2. The agency making the sale and the date of the sale. The Secretary of Transportation, on June 7, 1987, executed a 50-year lease for Dulles and National Airports with the Washington Metropolitan Airport Authority.

3. Specific legal authorization claimed for the sale. The Metropolitan Washington Airports Act of 1986, which was incorporated as title VI of the Continuing Budget Resolution for Fiscal Year 1987 (P.L. 99-591, enacted Oct. 30, 1986).

4. How the asking price of the asset was determined and by whom. According to a representative of the Authority, the transfer price to the Authority of $150 million (in constant 1987 dollars) was developed as a rough estimate of the airports' combined value by the staff of the House Committee on Public Works and Transportation. Reportedly, the $150 million included, but was not limited to, $47 million to cover the amount of government investment yet to be recovered through airport operating revenues; approximately $14 million to cover the cost of the land for and construction of the Dulles access road; and $36 million, which, in the initial legislation, was intended to compensate the State of Maryland Transportation Trust Fund for the contribution it made to the region's air transportation system through its purchase of Baltimore-Washington International Airport. In contrast, the Federal Aviation Administration's estimated book value of the airports was $111.4 million.

5. If the price was determined by a contractor, the contractor's name and amount paid by the agency for the contract. Not applicable.

6. Was there competition and if so, all competitors and their offers for the asset. Not applicable.

7. Selling price accepted and name of bidder. Under the terms of the lease, the Authority is to make a $3 million annual payment (in constant 1987 dollars) to the U.S. Treasury for 50 years. In addition, on June 6, 1988, the Authority made a one-time payment to the U.S. Treasury of $23.6 million to cover the unfunded pension liabilities for airport employees remaining in the Federal Retirement System.

Loan Assets

The President's fiscal year 1987 budget announced the administration's plan to undertake a pilot sale of selected loan assets. Such sales were designed to improve federal credit management and to generate budgetary receipts. The budgets for fiscal years 1988 and 1989 stated that on the basis of the successes of 1987, the federal government planned to continue its sales of loan assets. Table 1.1 shows the completed loan asset sales, by agency, during fiscal years 1987 and 1988, and table 1.2 shows the additional sales proposed during the remainder of fiscal year 1988 and during fiscal year 1989.

Table 1.1: Completed Loan Asset Sales for Fiscal Years 1987 and 1988 (As of July 29, 1988)

Dollars in millions

Agency and program	Unpaid principal sold	Net proceeds
Department of Agriculture: FmHA[1]		
Rural Development Loans	$1,927	$1,078
Rural Housing Loans	2,969	1,746
Department of Commerce: EDA[2]		
Business loans in default	28	15
Department of Education		
College Housing and Academic Facilities Loans	761	412
Veterans Administration		
Loan Guaranty Revolving Fund (vendee loans)	1,594	1,398
Total	**$7,279**	**$4,649**

[1]Farmers Home Administration

[2]Economic Development Administration

[3]Vendee loans are single family residential mortgage loans held by the Veterans Administration that resulted from sales of homes it acquired when veterans defaulted on mortgage loans it had guaranteed

Table 1.2: Proposed Loan Asset Sales for Fiscal Years 1988 and 1989

Dollars in millions

Agency and program	Unpaid principal FY 1988	FY 1989
Department of Agriculture		
FmHA[1] Rural Development Loans	$1,200	$1,125
FmHA Rural Housing Loans	•	1,752
REA[2] Rural Electrification Loans	1,000	1,600
REA Rural Telephone Bank Loans	500	•
Department of Education		
College Housing and Academic Facilities Loans		483
Department of Health and Human Services		
Health Maintenance Organization Loans	97	•
Medical Facilities Loans	132	122
Department of Housing and Urban Development		
Rehabilitation Loans	350	•
FHA[3] Fund (Multifamily Loans)	350	146
Elderly and Handicapped Loans	500	•
Public Facility Loans	200	•
Small Business Administration		
Business Loan Investment Fund	1,000	200
Disaster Loans	670	550
Development Company Loans	500	330
Veterans Administration		
Loan Guaranty Revolving Fund (vendee loans)		1,341
Total	**$6,499**	**$7,649**

[1]Farmers Home Administration

[2]Rural Electrification Administration

[3]Federal Housing Administration

[4]Proposed asset sales are not shown for these programs because sales were made during fiscal year 1988 (prior to July 29, 1988).

The following subsections present, by agency, selected information, including the loan valuation methods and sales procedures used for each of the completed loan asset sales during fiscal years 1987 and 1988. Future sales will more than likely involve the loan valuation methods and sales procedures used in the past.

Department of Agriculture—FmHA Rural Development Loans

Unpaid principal amount sold: $1.927 billion

Net proceeds: $1.078 billion

Date sold: September 23, 1987

Authorization: The sale was authorized by the Omnibus Budget Reconciliation Act of 1986 (section 1001 of P.L. 99-509).

Agency portfolio valuation method: The Farmers Home Administration (FmHA) contracted with Manufacturers Hanover Trust Co. to be its financial adviser for the sale of FmHA's Rural Development Loans. The financial adviser provided FmHA with financial knowledge and advice on the structure of the sales and also helped develop the agency's request for proposal (RFP), which established the criteria that FmHA used to evaluate the underwriters' financial proposals. RFPs were mailed to over 150 firms that expressed an interest in the sales offering. A technical panel of FmHA financial and program managers evaluated written proposals by considering the underwriters' financing plan, technical capabilities, and overall experience. On the basis of the panel's review, seven underwriters were found technically qualified and were asked to give oral presentations. The underwriters selected were Shearson Lehman Brothers Inc., as lead manager, and Salomon Brothers Inc. and Morgan Stanley & Co., as colead managers; four other firms served as comanagers. Fees for these services totaled about $15.3 million.

FmHA officials, the financial adviser, and the underwriters developed sales prospectuses that offered bonds for sale secured by a pool of 6,442 loans sold to a trust by FmHA. The proceeds from the bonds sold were determined between buyer and seller in the marketplace at the time of sale. Key factors in determining the value of the loan portfolio sold included the current prevailing market interest rates, the interest rates of the bonds being sold, the years to maturity on loans sold, and the overall creditworthiness on the pool of loans.

Department of Agriculture—FmHA Rural Housing Loans

Unpaid principal amount sold: $2.969 billion

Net proceeds: $1.746 billion

Date sold: September 29, 1987

Authorization: The sale was authorized by the Omnibus Budget Reconciliation Act of 1986 (section 2001 of P.L. 99-509).

Agency portfolio valuation method: FmHA contracted with Kidder, Peabody and Co. to be its financial adviser for the sale of FmHA's Rural Housing Loans. The financial adviser provided FmHA with financial knowledge and advice on the structure of the sales and also helped develop the agency's RFP, which established the criteria that FmHA used to evaluate the underwriters' financial proposals. RFPs were mailed out to over 150 firms that expressed an interest in the sales offering. A technical panel of FmHA financial and program managers evaluated written proposals by considering the underwriters' financing plan, technical capabilities, and overall experience. On the basis of the panel's review, eight underwriters were found technically qualified and were asked to give oral presentations. The underwriters selected were Salomon Brothers Inc., as lead manager, and E.F. Hutton, Shearson Lehman Brothers Inc., and Goldman, Sachs & Co., as colead managers; 16 other firms served as comanagers. Fees for these services totaled about $17.9 million.

FmHA officials, the financial adviser, and the underwriters developed sales prospectuses that offered certificates for sale secured by a pool of 141,352 residential mortgage loans sold to a trust by FmHA. The proceeds from the certificates sold were determined between buyer and seller in the marketplace at the time of sale. Key factors in determining the value of the loan portfolio sold included the current prevailing market interest rates, the interest rates of the certificates being sold, the years to maturity on loans sold, and the overall creditworthiness on the pool of loans.

Department of Commerce—EDA Business Loans in Default

Unpaid principal amount sold: $28.4 million

Net proceeds: $15.4 million

Date sold: Loans sold individually on several different dates

Authorization: The Omnibus Budget Reconciliation Act of 1986 (section 4101 of P.L. 99-509) authorized the Economic Development Administration (EDA) to sell defaulted loans.

Agency portfolio valuation method: EDA contracted with Chemical Bank to be its financial adviser for the sale of EDA business loans in default. The financial adviser provided EDA with financial knowledge and advice

on the loan asset sales and also completed a study on the marketability of EDA's defaulted loans. The loans were in default by more than 6 months, and nearly all had been referred to the Department of Justice. Chemical Bank advised EDA not to package the loans as a collateralized asset sale because they would have a very low market value due to their default status. Therefore, EDA did not develop an RFP to solicit any underwriting services, and no underwriters were used in the sales process. Fees for Chemical Bank's services totaled about $180,000.

EDA and Justice officials worked together in offering individual loans to interested investors. In fiscal year 1987 EDA sold 13 defaulted business loans. The value of these loans and sale proceeds were primarily determined between buyer and seller in the marketplace at the time of sale. The key factor in determining the value of each loan sold was the amount and value of each loan's collateral. EDA collected the entire unpaid principal balance on three of its loans because the loan collateral had reasonable market value. The remaining 10 loans were discounted on the basis of the market value worth of their collateral.

Department of Education—College Housing and Academic Facilities Loans

Unpaid principal amount sold: $237 million

Net proceeds: $120 million

Date sold: September 29, 1987

Authorization: Under the Higher Education Act of 1965, as amended by the Higher Education Amendments of 1986 (P.L. 99-498), the Department of Education is authorized to sell these loans.

Agency portfolio valuation method: The Department of Education contracted with Chemical Bank to be its financial adviser for the sale of Education's College Housing and Academic Facilities Loans. Chemical Bank provided Education with financial knowledge and advice on the structure of the sales and also helped develop Education's RFP, which established the criteria that Education used to evaluate the underwriters' financial proposals. A panel of Chemical Bank staff evaluated each proposal by considering the underwriter's (1) organizational experience and capabilities, (2) financing plan, (3) personnel qualifications, and (4) overall technical capabilities. On the basis of the panel's review of 11 proposals, Salomon Brothers Inc., The First Boston Corp., and Shearson Lehman Brothers Inc. were awarded the underwriting services contract. Fees for these services totaled about $880,000.

Education officials, the financial adviser, and the underwriters developed a sales prospectus that offered bonds for sale secured by a pool of 324 loans sold to a trust by Education. The proceeds from the bonds sold were determined between buyer and seller in the marketplace at the time of sale. Key factors in determining the value of the loan portfolio sold included the current prevailing market interest rates, the interest rates of the bonds being sold, and the overall creditworthiness of the borrowers.

Department of Education—College Housing and Academic Facilities Loans

Unpaid principal amount sold: $524 million

Net proceeds: $292 million

Date sold: May 12, 1988

Authorization: Under the Higher Education Act of 1965, as amended by the Higher Education Amendments of 1986 (P.L. 99-498), the Department of Education is authorized to sell these loans.

Agency portfolio valuation method: On this sale, the Department of Education continued to use Chemical Bank as its financial adviser and elected not to issue a nationwide RFP to solicit proposal packages from underwriters on the structure of the sale. Instead, Education sent an RFP to Salomon Brothers Inc., The First Boston Corp., and Shearson Lehman Hutton Inc., the three underwriters who were retained for the first sale in 1987. Education used these firms because they were more experienced in handling secured loan asset sales in portfolios of college housing and academic facilities. Education saved the associated costs and time involved in developing a nationwide RFP and in evaluating several financial proposals. Fees for the underwriting services on this sale totaled about $2.4 million.

Education officials, the financial adviser, and the underwriters developed a sales prospectus that offered bonds for sale secured by a pool of 694 loans sold to a trust by Education. The proceeds from the bonds sold were determined between buyer and seller in the marketplace at the time of sale. Key factors in determining the value of the loan portfolio sold included the current prevailing market interest rates, the interest rates of the bonds being sold, and the overall creditworthiness of the borrowers.

Veterans Administration—Loan Guaranty Revolving Fund (Vendee Loans)

Unpaid principal amount sold: $1,285 billion

Net proceeds: $1,226 billion

Date sold: Five program sales during fiscal year 1987 and two during fiscal year 1988

Authorization: Laws relating to veterans' benefits are revised, codified, and enacted as title 38, U.S.C. "Veterans Benefits," by Public Law 85-857. Title 38 U.S.C. section 1820 authorizes the Veterans Administration (VA) to sell vendee loans.

Agency portfolio valuation method: VA used its in-house program and financial staff to develop loan sale notices that provided to the private sector specific loan information on the auction sales of vendee loans. Notices contained the number of loans offered by state, unpaid principal amounts, average remaining life, monthly tax and insurance deposit amounts, and other information. VA maintained a mailing list of investment institutions interested in its vendee auction sales and sent them loan sale notices during the year. Loans were grouped by interest rates and categorized by specific lot numbers. Lots were open for bidding by selected states or by the entire lot at the bidder's option. Written offers from bidders were submitted to the VA's Loan Guaranty Service in Washington, D.C. VA's financial and program managers evaluated all proposed bids and selected those with the highest amounts. All loans were sold on a recourse basis—that is, with some form of government protection for private investors against loan losses after the sale.

VA accepted many bids from banks and other financial institutions for its 1987 sales. There were 21 separate closing dates for the sale of 22,085 loans during fiscal year 1987. Twelve separate closing dates for the sale of 8,713 loans have occurred thus far during fiscal year 1988. The proceeds from the loans sold were primarily determined between buyer and seller in the marketplace at the time of sale. Key factors in determining the value of the loan portfolio sold included the current prevailing market interest rates and the interest rates on the loans sold. Depending on the market rates, loans were sold at both a discount and a premium.

Veterans Administration—Loan Guaranty Revolving Fund (Vendee Loans)

Unpaid principal amount sold: $309 million

Net proceeds: $172 million

Date sold: June 29, 1988

Authorization: Laws relating to veterans' benefits are revised, codified, and enacted as title 38, U.S.C. "Veterans Benefits," by Public Law 85-857. Title 38 U.S.C. section 1820 authorizes VA to sell vendee loans.

Agency portfolio valuation method: VA contracted with Kidder, Peabody and Co. to be its financial adviser for the sale of VA's vendee mortgage housing loans without recourse against the government. The financial adviser provided VA with financial knowledge and advice on the structure of the sales and also helped develop VA's RFP, which established the criteria that VA used to evaluate the underwriters' financial proposals. RFPs were mailed to 74 firms that expressed an interest in the sales offering. A technical panel of VA financial and program managers evaluated written proposals by considering the underwriters' financing plan, technical capabilities, and overall experience. On the basis of the panel's review, 10 underwriters were found to be technically qualified and were interviewed by VA. The underwriters selected were Salomon Brothers Inc. and The First Boston Corp., as colead managers; Merrill Lynch Capital Markets, Goldman, Sachs & Co., and Shearson Lehman Hutton Inc., as comanagers; and four other firms. Fees for these services totaled about $1.3 million.

VA officials, the financial adviser, and the underwriters developed a sales prospectus that offered senior certificates for sale secured by a pool of 8,903 residential mortgage loans sold to a trust by VA. The proceeds from the certificates sold were determined between buyer and seller in the marketplace at the time of sale. Key factors in determining the value of the loan portfolio sold included the current prevailing market interest rates, the interest rates of the certificates being sold, the insurance and rating on the certificates, the years to maturity on loans sold, and the overall creditworthiness on the pool of loans.

Surplus National Stockpile Materials

The United States cannot produce certain strategic and critical materials in sufficient amounts to support its requirements during national emergencies. To prevent what could be a dangerous and costly dependence on foreign supply sources during these crises, the General Services

Administration (GSA) maintains a National Defense Stockpile of materials to avoid military setbacks and economic damage in wartime.[1] The first major program to stockpile strategic and critical materials was authorized and initiated under the Strategic Materials Act of 1939 and amended by the Strategic and Critical Materials Stock Piling Act of 1946 (50 U.S.C. 98 et seq.). The Strategic and Critical Materials Stock Piling Revision Act of 1979, Public Law 96-41, revised and updated the 1946 act to conform to current stockpile policy and to strengthen the legislative role in stockpile matters. This act restricted the use of stockpile materials to national defense and precluded their use for economic or budgetary purposes. It also established a separate fund in the U.S. Treasury—the National Defense Stockpile Transaction Fund—where all moneys received from the sale of stockpile materials were to be deposited. The fund was to be used for the acquisition, maintenance, and upgrading of materials and for other related expenditures permitted by this act and subsequent legislation.

The stockpiling act, as amended by the National Defense Authorization Act for fiscal years 1988 and 1989, provides, in part, in section 6(b) that to the maximum extent feasible

- competitive procedures be used in the acquisition and disposal of materials and
- stockpile materials dispositions authorized by law be available at a fair market value.

Sales Activity During Fiscal Years 1985-88

Each year the Federal Emergency Management Agency develops an Annual Materials Plan that sets forth disposals and acquisitions associated with the maintenance of stockpile goals; in the future this will be done by the Secretary of Defense. The types and quantities of materials to be sold and acquired, however, are limited by annual authorizing legislation passed by the Congress. The Congress has also limited sales from the stockpile by imposing a $250 million limit on unobligated balances in the transaction fund through fiscal year 1986 and a $100 million limit thereafter. According to agency officials, these provisions (set forth in section 903 of P.L. 98-525, passed Oct. 19, 1984) have effectively limited disposals since fiscal year 1985 to those supporting the

[1]Executive Order 12626, dated February 25, 1988, designated the Secretary of Defense the stockpile manager. Accordingly, GSA's stockpile group and the materials were transferred as a unit to the Defense Logistics Agency, effective July 3, 1988.

upgrading of chromium and manganese ores to high-carbon ferrochromium and ferromanganese. The moneys generated by these disposals do not revert to the fund but are used to acquire the upgraded material and, therefore, have no impact on fund balances subject to the cap. An exception to the limitations described above are sales of silver to Treasury for commemorative coinage production, the proceeds from which are deposited in the fund but are not subject to the unobligated funds cap.

As shown by table 1.3, stockpile disposals in support of the Ferroalloys Program and sales of silver during fiscal years 1985-88 (as of May 31, 1988) totaled about $316 million. In fiscal year 1985, an additional $19 million was received for material sold on the market for cash, before the transaction fund exceeded the cap on unobligated balances. Silver sales to the Department of the Treasury valued at $152 million have been made beginning in fiscal year 1986, pursuant to sections 103(a) and 203(3) of Public Law 99-61, the Statue of Liberty-Ellis Island Commemorative Coin Act. Included in this total are about $12 million in sales made under the authority of Public Law 99-582, the Bicentennial of the Constitution Coins Act, passed October 29, 1986.

We were informed by GSA officials that sales to Treasury are made on a negotiated basis. GSA indicated that its price position is developed for a sale by using an average of the quotes for the previous 30 days obtained from London market sources.

Table 1.3: Disposal of National Stockpile Materials for Fiscal Years 1985-88 (As of May 31, 1988)

Dollars in thousands

Commodities	Fiscal year 1985	1986	1987	1988	Total
Disposals to support the Ferroalloys Program					
Antimony	$ •	$898	$2,465	$440	**$3,803**
Diamond industrial stones	3,665	5,438	5,482	11,490	**26,075**
Iodine	•	•	4,862	•	**4,862**
Manganese dioxide	•	•	•	190	**190**
Mercuric oxide	28	•	•	•	**28**
Mercury	1,051	•	781	•	**1,832**
Mica	•	•	61	69	**130**
Silicon carbide	•	•	2,763	•	**2,763**
Tin	39,443	31,124	26,765	13,157	**110,489**
Tungsten	4,597	•	3,922	2,887	**11,406**
Vegetable tannin	•	17	1,302	856	**2,175**
Subtotal	**$48,784**	**$37,477**	**$48,403**	**$29,089[a]**	**$163,753**
Silver transferred to Treasury	•	25,413	81,913	44,467[a]	**151,793**
Total	**$48,784**	**$62,890**	**$130,316**	**$73,556**	**$315,546**

Source: GSA, Stockpile Contracts Division, Disposal Branch.

[a]Stockpile officials estimate additional fiscal year 1988 disposals of $3,495,000 in support of the Ferroalloys Program and $18,586,000 in transfers of silver to Treasury.

In addition to the coinage acts, the disposals described above were made under the authority of the Department of Defense Authorization Acts of 1985 and 1987, Public Law 98-525 (section 902) and Public Law 99-661 (section 3204), respectively. The authority for the purchase of upgraded ferroalloys is discussed below.

Ferroalloy Upgrading Program

The Ferroalloy Upgrading Program, directed by the President in November 1982 and mandated by the Congress (by P.L. 99-591, Continuing Appropriations for Fiscal Year 1987), was initiated to help sustain a U.S. ferroalloy-processing capability deemed vital to national defense. Since its inception, the program has been accomplished through contracts with Macalloy Corp. of Charleston, South Carolina, and Elkem Metals of Pittsburgh, Pennsylvania, for the upgrading of GSA stockpiled chromite and manganese ores, respectively, to high-carbon ferroalloys. Calendar year 1988 is the fifth year of this 10-year program, which began in 1984. Materials authorized for disposal from the stockpile are sold to the two contractors or their agents, who in turn use the proceeds to pay for upgrading the material. We were informed by a GSA official

that since stockpile materials cannot now be offered to commercial bidders for cash, there is no competition and therefore prices for the commodities traded in payment are negotiated between GSA and the contractors or their agents. A GSA official said that its price positions in these negotiations are based on research of applicable market information.

We were informed by a GSA official that all offering prices developed by the disposals group must be approved by the Branch Chief, the Director of the Stockpile Contracts Division, the Assistant Commissioner for the National Defense Stockpile, and, finally, the Commissioner, Federal Property Resource Service, or his deputy before becoming final. This authority will revert to Defense Logistics Agency management upon completion of the move to the Department of Defense.

As shown in table 1.3, more tin is sold than any other material. Through our discussions with GSA officials and an examination of applicable records, we found that GSA sets its tin prices close to applicable daily market quotes. Our review of GSA's contracts with Elkem Metals and Macalloy revealed that their respective terms were adjusted in 1985 to recognize the impending suspension of competitive sales of stockpile materials for cash.

Materials sold to the contractors go toward meeting the cost of the upgraded metals agreed to by contract with GSA. The initial contracts with Elkem and Macalloy were signed in December 1983 and constituted the 1984 program. Subsequent contracts with the same firms were awarded for 1985, with options taken for 1986; 2-year contracts were awarded in 1987, with the options recently taken for 1989. A GSA official informed us that solicitations for bids have been made each year but that competitive bids were received only for the initial contracts. On the basis of our review of GSA's mailing list of ferroalloy processors, it appears that as many as 15 firms might have been solicited for bids.

Surplus Real Property

The budgets for fiscal years 1987 and 1988 discussed the administration's plan to have GSA dispose of acquired land, buildings, and related structures reported as being surplus to the needs of federal agencies. This is not a new initiative inasmuch as the Federal Property and Administrative Services Act of 1949 (40 U.S.C. 483) (1) assigned GSA responsibility for developing government wide policies and procedures for identifying and disposing of unneeded acquired real property and (2)

gave GSA the authority to dispose of excess and surplus acquired real property.

GSA procedures require federal agencies to review their real property holdings annually and identify property that may no longer be needed. Once a property has been identified as excess to an agency's needs, it is reported to GSA, which first offers the property to other federal agencies. If no other federal agency needs the property, it is declared surplus and then offered to state and local governments. Finally, if they have no need for it, the property is put up for sale to the public.

When GSA expects to transfer or sell excess or surplus real property, it generally is required to obtain an appraisal of the fair market value of the property. (Appraisals are not required for small parcels—with estimated values of less than $50,000—sold to the public through auction or sealed bid.) Appraisal contracts are awarded by competitive selection of a qualified real estate appraiser. According to GSA's Senior Supervisory Appraiser, Federal Property Resources Service, a real estate appraisal generally costs GSA about $2,000 to $3,000.

GSA can transfer surplus real property to states and local governmental units and certain nonprofit institutions at the appraised value with discounts against the value of up to 100 percent if the property is to be used for education, health, parks and recreation, historic monuments, public airports, highways, wildlife conservation, or low- or moderate-income housing. The requesting body must submit a detailed use plan and agree to restrict the use of the property to the intended use. According to GSA, most public benefit conveyances are at no cost to the applicant.

Property may also be sold through negotiated sale to state and local governments for a direct public purpose or controlled community development. GSA must receive at least the appraised fair market value for the property, and the state or locality may not resell the property. Further, negotiated sale transactions must be reviewed by the Senate Committee on Governmental Affairs and the House Committee on Government Operations.

Properties not transferred or sold to state or local governments are offered for competitive public sale through sealed bid or public auction. Both sealed bid and public auction sales are awarded to the highest bidder whose offer is acceptable to the government—at least 90 percent of the appraised value and fully responsive to the terms and conditions of

the bid invitation. If the highest bid is less than 90 percent of the estimated market value, GSA may offer the high bidder the opportunity to raise his bid, or it may reject all bids and re-offer the property at a later date. There are generally no federal restrictions on the title or use of land sold by negotiation or public sale, other than covenants to protect historic or architecturally distinctive features of the property.

Most sales of real property by GSA are on a cash basis. Earnest money deposits or bid-deposits are usually required at the time of sale, with the balance due at the time of closing. Unless otherwise authorized by law, the proceeds of sales of real property by GSA go to Treasury's Land and Water Conservation Fund.

Data Gathered on Completed Sales and Planned Sales

As shown in table 1.4, between fiscal years 1985 and 1987, GSA sold an average of 311 properties a year, and total annual sales averaged $109 million. About 26 of the properties sold each year were valued at $1 million or more, but they represented about 73 percent of the total sales of properties. The properties worth over $1 million were sold at 157 percent of the $51.2 million appraised value.

Table 1.4: Surplus Real Property Sales for Fiscal Years 1985-87

Dollars in millions

	Fiscal Year			
	1985	1986	1987	Average
Estimated value of real property reported excess	$167	$154	$132	$151
Total sales	$107	$116	$105	$109
Number of properties disposed of[a]	424	469	315	403
Number of properties sold	321	390	222	311
Number of properties sold for $1 million or more	21	34	22	26
Total sales of properties sold for $1 million or more	$74	$84	$83	$80
Appraised value of property sold for $1 million or more	$30	$66	$57	$51
Percent of appraised value for sales of $1 million or more	244	127	146	157

Source: GSA's Centralized Property Disposal Tracking System.

[a]Includes property which was sold, exchanged for other property, transferred to another agency, and conveyed without charge to a state or local government.

The proceeds from the single largest sales during each of these fiscal years were as follows:

- for fiscal year 1985, Hamilton Air Force Base, Novato, California ($45,000,000);

- for fiscal year 1986, a portion of the Naval Air Station, Truman Annex, Key West, Florida ($10,488,000); and
- for fiscal year 1987, a portion of the Naval Air Station, San Diego, California ($23,000,000).

As of June 30, 1988, GSA had 311 properties that had been reported as excess by federal agencies and/or had been declared surplus but had not yet been sold. The 311 properties included 26,729 acres and 1,335 buildings. GSA estimated that about 48 of the 311 properties have a value of $1 million or more.

Federal Assets Proposed for Sale

This section provides, to the extent that it was available, the information requested regarding federal assets proposed for sale in the President's budget proposals to the Congress. While sales of loan assets, surplus national stockpile materials, and surplus real property are also proposed, a discussion of the proposed sale of these assets is contained in section 1. The information presented in this section is identified directly with the items requested.

National Railroad Passenger Corporation (Amtrak)

1. The asset. Amtrak's assets are essentially its rolling stock and its real estate and track facilities primarily in the Northeast Corridor. In 1976 Amtrak acquired the properties in the Northeast Corridor from Conrail for about $86 million. In addition, $2.5 billion in federal funds has been authorized to improve these properties; as of September 30, 1987, Amtrak had spent $2.1 billion for such improvements. Regarding the rolling stock, DOT, using supplemental appropriations, paid off a $1.1 billion loan obligation to the Federal Financing Bank in 1983. The federal government holds notes as security for this property.

2. The agency proposing the sale and the schedule for offering the asset. For the past 4 fiscal years, the administration has proposed in the budget the sale of Amtrak. In fiscal year 1987 DOT became most involved in this process. According to a Federal Railroad Administration (FRA) official, the Office of Management and Budget (OMB) requested in a letter to the Secretary that DOT establish a committee to develop strategies on how to best proceed with the disposal of Amtrak. This letter also requested that DOT propose legislation to establish procedures to dispose of Amtrak's assets. The Secretary announced the creation of a commission to study the privatization of Amtrak. Shortly thereafter, the Chairman, House Committee on Energy and Commerce, expressed concern about this commission. In July 1987 the supplemental appropriations bill for 1987 was enacted. This law prohibited DOT from using funds provided in this or any other act to implement this commission. According to an FRA official, DOT has not become involved with proposals to sell Amtrak assets since then.

3. The specific claimed legal authorization for the sale. According to a staff attorney in the FRA Office of Chief Counsel, DOT has not evaluated its legal authority pertaining to the sale of Amtrak assets or developed legislation related to the disposal of these assets.

4. The basis for proposing the sale. The fiscal year 1989 budget states that Amtrak was created as a for-profit corporation to relieve the passenger railroad industry of its deficit, to preserve "core" passenger service, and to experiment with changes to achieve economic viability. However, the budget states that Amtrak has failed to realize these goals and will continue to be a drain on the U.S. Treasury. The administration estimates that $7 billion in federal grants will be needed over the next decade. The budget states that government ownership is an inadequate solution for a failing industry and that in the context of massive federal deficits, Amtrak represents a transportation amenity that the nation cannot afford and can readily do without.

5. How value of the asset is to be determined and by whom the determination will be made; amount to be paid to contractor, if any, to determine selling price. Not applicable.

6. If already determined, the asking price for the asset. Not applicable.

7. If bids or proposals have been received, provide the names of the competitors. Not applicable.

Great Plains Coal Gasification Project

1. The asset. The Great Plains Coal Gasification Project, located near Beulah, North Dakota, is the nation's only commercial-scale coal gasification plant built to produce synthetic natural gas of pipeline quality. The plant was built by Great Plains Gasification Associates, a partnership of five energy companies, at a cost of about $2.1 billion, of which $1.5 billion was financed by a construction loan issued by the Federal Financing Bank and guaranteed by the Department of Energy (DOE). On August 1, 1985, the partnership terminated its participation in the project and defaulted on the $1.5 billion DOE-guaranteed loan. DOE assumed control of the project and subsequently obtained title. The ANG Coal Gasification Co., which began operating the project in 1984, has continued to operate the project for DOE at a fee of about $3 million a year.

2. The agency proposing the sale and the schedule for offering the asset. The fiscal year 1989 budget states that DOE hopes to complete the process of returning the Great Plains project to private sector ownership by September 1988. Public Law 100-202 (Dec. 22, 1987) requires DOE to notify the House and Senate Appropriations Committees, the Senate Energy and Natural Resources Committee, and the appropriate House authorizing committees at least 30 days before the sales agreement is effective. The notification is to contain a detailed description of the

terms and conditions of the sale, including the purchase price, the name of the prospective purchaser, the basis for agreeing to the sale, and a signed statement of commitment from an authorized representative of the purchaser assuring the continued long-term operation of the facility.

3. The specific claimed legal authorization for the sale. The Federal Nonnuclear Energy Research and Development Act of 1974 (P.L. 93-577), as amended by the Department of Energy Act of 1978—Civilian Applications (P.L. 95-238), authorized DOE to provide loan guarantees for alternative fuel demonstration projects. DOE provided the loan guarantee for the Great Plains project under that legislative authority. After the loan default, DOE assumed control of the project and subsequently obtained title. Under the loan guarantee agreement and the Nonnuclear Act, DOE believes it has broad authority to protect the government's interest in the Great Plains project. DOE is authorized "to maintain, operate, lease, or otherwise dispose of" the mortgaged property (42 U.S.C. section 5919(g)(2); Loan Guarantee Agreement, section 7.02(b)(iii)).

4. The basis for proposing the sale. DOE has pursued a strategy to return the Great Plains project to private ownership since early 1987. As a matter of policy, DOE believes that the government should not be competing with private enterprise in the gas production business. DOE's Assistant Secretary for Fossil Energy testified in April 1988 that DOE's strategy can be justified not only in terms of removing the government as a direct competitor in the gas production business but also in terms of returning the most economic value to the nation and creating a more stable, long-term future for the facility. The Assistant Secretary also stated that DOE's planned divestiture incorporates the dual goals of (1) receiving fair value for the facility and (2) encouraging long-term operation of the plant.

5. How value of the asset is to be determined and by whom the determination will be made; amount paid to contractor, if any, to determine the selling price. DOE has retained Shearson Lehman Hutton Inc., to assist it in selling the Great Plains project. To estimate the project's market value, Shearson developed a financial computer model and used its own economic and operating assumptions. DOE has not publicly disclosed Shearson's estimated market value of the project. DOE's February 1987 contract with Shearson provides that DOE will pay Shearson $100,000 for each quarter of Shearson's involvement, not to exceed six quarters and subject to the following conditions:

- If the project is sold, Shearson will receive as its fee 1 percent of the first $50 million of the selling price, 1/2 percent of the next $450 million, and 3/8 percent of the remainder of the selling price, less the amount of quarterly payments received.
- If the project is not sold, Shearson will retain the quarterly payments received from DOE for services rendered in support of the sales effort.

6. If already determined, the asking price for the asset. DOE has not publicly disclosed Shearson's market value of the project. In our June 10, 1988, report on our comparative analyses of retaining and selling the Great Plains project (GAO/RCED-88-172), we estimated that for the government to be as financially well off from selling the project as it would be from retaining ownership (the point at which the government would be indifferent to retaining or selling the project), the project would have to be sold for about $1 billion. We recommended that the Secretary of Energy, in determining a fair price for the Great Plains project, consider the financial value of the project under continued federal ownership, as discussed in our report, and the effect of production tax credits on the federal budget. As of August 12, 1988, DOE had not responded to our recommendation. On August 5, 1988, however, DOE held a press conference and announced that it had selected Basin Electric Power Cooperative as the preferred buyer for the Great Plains project. DOE said that the value of Basin's offer to the government could be as high as $1.8 billion over the next 21 years. According to DOE, the $1.8 billion estimated value would be in undiscounted dollars, or dollars valued at the time they are received. The estimated value is based upon an initial cash payment, profit sharing over 21 years, federal tax revenues and credits, and funds in the project's cash reserve. Under the sale structure, the actual value of the agreement will vary with inflation and gas prices. DOE said that based on its view of these factors and discount rates, the present value of Basin's offer would be about $600 million.

7. If bids or proposals have been received, provide the names of the competitors. According to DOE, nine formal offers to purchase the Great Plains project were received—from (1) Basin Electric Power Cooperative; (2) Coastal Corp. (the parent company of one of the original plant owners); (3) Mission First Financial (a subsidiary of Southern California Edison); (4) Beta Pipeline and Equipment, Inc.; (5) FHN Energy, Inc.; (6) Industrial Engineering Services; (7) Irving A. Backman; (8) Complete Energy Petroleum, Inc.; and (9) The Three Affiliated Indian Tribes of the Fort Berthold Reservation.

Helium Program

1. The asset. The Helium Program assets proposed for sale are the Exell, Texas, helium-processing plant, the Amarillo, Texas, container-filling plant, and helium transportation equipment.

2. The agency proposing the sale and the schedule for offering the asset. The fiscal year 1989 budget proposes to sell all of the physical assets, excluding the government-owned crude helium, associated with the federal Helium Program, which is controlled by the Bureau of Mines within the Department of the Interior. The Assistant Director, Helium Operations, Bureau of Mines, told us that no decision has been made on whether to sell the government-owned crude helium inventory.

3. The specific claimed legal authorization for the sale. Public Law 86-777 authorizes the Secretary of the Interior "to dispose of, by lease or sale, property, including wells, lands, or interests therein, not valuable for helium production, and oil, gas, and byproducts, of helium operations not needed for Government use. . . ."

4. The basis for proposing the sale. To conserve helium for essential government use and promote the development of a private helium industry, the federal government in 1960 began purchasing and storing helium for future use. The government has stockpiled a large helium inventory in Amarillo, Texas, capable of meeting projected needs for the next 100 years. The Department of the Interior has been successful in its efforts to conserve helium and to spur growth of a private helium industry. With an established private helium industry and the nation secure in its possession of known reserves and stored inventory, the administration proposes to divest itself of the Helium Program.

5. How value of the asset is to be determined and by whom the determination will be made; amount to be paid to contractor, if any, to determine selling price. Interior's Bureau of Mines contracted with J.R. Campbell and Associates, Inc., of Lexington, Massachusetts, in 1987 to analyze the major issues relating to the valuation and potential disposition of the helium operations. Campbell was paid about $156,000 for its analysis, a major objective of which was to develop potential alternatives for disposing of the government's helium operations. The study proposed three alternatives and estimated the value to the government of each alternative in current 1987 dollars. A detailed financial model of the helium operations was used to project future cash flows for each alternative. The three alternatives and the estimated value to the government are as follows:

Alternative 1
Government retains all its current helium operations, maintains its exclusive government agency supply policy, and does not sell any crude helium to the private sector (value $193 million).

Alternative 2
Government sells its helium operations and its crude helium over time and opens government agency supply to the private sector (value $210 million).

Alternative 3
Government retains all its current helium operations, maintains its exclusive government agency supply policy, and sells its crude helium over time (value $327 million).

By a notice in the Federal Register of May 26, 1988, Interior solicited comments on these alternatives and on several other questions concerning the future of the government's helium operation. The three largest helium producers/retail marketers indicated that they were not interested in purchasing or operating the government's helium operations. The comments of these three firms and other interested parties as well as the options included in the contractor's study will be reviewed to determine a position for the Secretary's consideration. This information will be included in a Secretarial Issue Document, which was being prepared as of August 15, 1988.

6. If already determined, the asking price for the asset. No asking price has been established yet.

7. If bids or proposals have been received, provide the names of the competitors. Not applicable.

Power Marketing Administrations

1. The asset. The Department of Energy operates five Power Marketing Administrations (PMA), which produce 6 percent of all wholesale electric power in the United States. The assets of the Alaska Power Administration (APA), which have been proposed for sale, consist principally of the Snettisham and Eklutna Hydroelectric Projects. Project facilities include dams, waterways, power plants, transmission systems, maintenance facilities and vehicles, and inventories of spare parts, materials, and other properties owned by the federal government for the project.

2. The agency proposing the sale and the schedule for offering the asset. The fiscal year 1989 budget proposed the sale of APA and a study of the feasibility of divestiture of the Southeastern Power Administration (SEPA). Negotiations are underway for the sale of APA. Two bills have been introduced in the Congress for a study of the sale of SEPA—H.R. 2718 and S. 1719—but no action has been taken on these bills and no hearings are scheduled. In addition, the administration remains committed to pursuing divestiture of the three other PMAs—Bonneville, Southwestern, and Western—if significant local interest develops for such sales.

3. The specific claimed legal authorization for the sale. The Urgent Supplemental Appropriations Act, 1986 (P.L. 99-349), prohibited DOE from expending appropriated or other funds to study the issue or to develop proposals for transferring the four largest PMAs from federal control. APA was not included in the legislated prohibition. As stated above, two bills have been introduced in the Congress authorizing a study of the sale of SEPA.

4. The basis for proposing the sale. The primary consideration for PMA divestiture appears to be a general administration policy guideline that the federal government should not be performing services that can be provided as efficiently, or more efficiently, by other entities. According to the President's 1989 budget proposal, divestiture of APA would (1) lead to the creation of new enterprises more responsive to local and consumer needs without significant increases in power rates and (2) generate revenues of $100 million. Additionally, the budget proposal asserted that it is no longer necessary to have a separate federal power program that is not interconnected with other electrical systems and operates in a single state.

5. How value of the asset is to be determined and by whom the determination will be made; amount to be paid to the contractor, if any, to determine selling price. DOE contracted with Coopers and Lybrand for $90,000 to develop two reports: one on asset valuation and the second on alternative sale structures. The asset valuation report listed five valuation methods: net book value, reproduction cost, replacement cost, discounted cash flow, and unrepaid balance of the federal investment. The valuation for these alternative methods ranges between $81.8 million and $319.5 million.

6. If already determined, the asking price for the asset. According to a DOE official, the final price has not been established, but negotiations for the sale of APA are underway, as discussed below.

7. If bids or proposals have been received, provide the names of the competitors. DOE received one bid for the Eklutna project, which was a joint proposal by the Municipality of Anchorage, the Chugach Electric Association, and the Matanuska Electric Association. For the Snettisham project, one proposal was filed by the Alaska Power Authority, an agency of the state of Alaska. DOE has presented the bidders with a proposal that contains several terms and conditions of sale. Those proposals are currently being negotiated, and the final price will depend on the total package of terms that is agreed upon. In other words, the sale price is only one of the contract terms, and it could increase or decrease, depending upon how the non-price issues are resolved.

Because DOE is in the midst of sale negotiations, a DOE official told us he was reluctant to discuss specifics of the sale price for fear that such a discussion might jeopardize DOE's bargaining position. However, the official said the basic criterion used for the negotiation is that, as a minimum, the federal government must receive an amount based on the net present value of the unrepaid federal investment in APA assets. The maximum amount will be limited by the criterion that electricity rate increases, as a result of the sale, would not exceed 10 percent. (Because electricity rates are based on cost recovery, the higher the price paid by the purchaser, the higher the rates must be to recapture the cost of purchasing the assets.) The implication is that any price that is substantially higher than the net present value of the unrepaid federal investment is not considered a viable alternative.

The Coopers and Lybrand report estimated that the net present value of future principal and interest payments the federal government would receive if it maintained ownership of APA would be about $89 million (based on a sale at the end of fiscal year 1988 and a discount rate of 7.6 percent). The administration's budget proposal figure of $100 million was an approximation of the expected sale price. At this time, the final negotiated price is expected to fall between $89 million and $100 million. Although the payment schedule is still subject to the negotiation process, it could cover a 5-year period. Payment for the Snettisham project would probably involve the use of tax-exempt bonds by the Alaska Power Authority.

Transportation Systems Center

1. The asset. The Transportation Systems Center (TSC) is a research and analysis center owned and operated by DOT. TSC provides independent research, analysis, and systems- engineering support of nationally significant transportation initiatives and acquisitions. Located on 14 acres in Cambridge, Massachusetts, TSC consists primarily of six buildings, the major facility being a 13-story office building.

2. The agency proposing the sale and the schedule for offering the asset. The President's fiscal year 1989 budget states that the administration has proposed legislation to allow DOT to develop options for the transfer of TSC to a nonfederal entity and initiate a public bidding process for parties interested in purchasing the facility. In October 1987 the Secretary of Transportation submitted enabling legislation to study alternative methods of transferring TSC to the private sector. However, as of June 15, 1988, no Member of Congress had sponsored the bill submitted by the Secretary or other legislation along the lines suggested by the administration.

3. The specific claimed legal authorization for the sale. As stated above, special legislation will be needed.

4. The basis for proposing the sale. Since the early 1980s, TSC has become more directly involved with the private sector in order to meet the increasing demand for transportation-related research. Accordingly, the administration believes that TSC could be managed by the private sector, contending that the private sector could enhance the facility without the federal government's budgetary and contracting constraints.

5. How value of the asset is to be determined and by whom the determination will be made; amount to be paid to contractor, if any, to determine selling price. No action has been indicated in this regard because section 308 of the fiscal year 1988 DOT appropriation legislation (P.L. 100-202) states that "none of the funds in this or any previous or subsequent Act shall be available for the planning or implementation of any change in the current Federal status of the Transportation Systems Center...." The same provision is contained in the proposed DOT appropriation legislation for fiscal year 1989.

6. If already determined, the asking price for the asset. Not applicable.

7. If bids or proposals have been received, provide the names of the competitors. Not applicable.

Uranium Enrichment Facilities

1. The asset. These facilities include three gaseous diffusion plants located in Oak Ridge, Tennessee (currently in shutdown status), Paducah, Kentucky, and Portsmouth, Ohio, plus related equipment and inventories of uranium ore and enriched uranium. Also included is the partially completed gas centrifuge facility in Portsmouth.

2. The agency proposing the sale and the schedule for offering the asset. The fiscal year 1989 budget proposed that the Congress specifically authorize and encourage the administration to study the feasibility of privatizing the federal government's uranium enrichment facilities. DOE and the administration, however, currently support the formation of a government corporation. Earlier this year the Senate passed S. 2097, which would establish a new government enrichment corporation. House and Senate leaders, the administration, and uranium miners are negotiating a resolution to a number of issues involving the enrichment program, domestic uranium miners, and the proposed Canadian Free Trade Agreement, which calls for no restrictions on imported Canadian uranium ore. These parties hope to reach an agreement that would result in new legislation establishing a government corporation.

3. The specific claimed legal authorization for the sale. Senate report 100-159, accompanying DOE's fiscal year 1988 appropriation legislation (P.L. 100-202), contains the opinion that legislation would have to be enacted to authorize the transfer or sale to the private sector.

4. The basis for proposing the sale. DOE considered a sale in order to allow the uranium enrichment program to be operated in a more business-like manner, less restricted by government bureaucracy. Also, privatization proposals were stimulated by the poor financial condition of the program.

5. How value of the asset is to be determined and by whom the determination will be made; amount to be paid to contractor, if any, to determine selling price. The uranium enrichment program's assets have not been appraised for sale to the private sector. DOE's 1987 financial statement for the program shows assets totaling about $5.6 billion. The statement, however, does not fully reflect past unrecovered costs, which we calculated to total about $9.0 billion at the end of fiscal year 1987 (GAO/T-RCED-88-59, Aug. 10, 1988). Because we recognize that full cost recovery is not feasible, we recommended in our October 1987 report, Uranium Enrichment: Congressional Action Needed to Revitalize the Program

(GAO/RCED-88-18), that the Congress allow DOE to write off the costs associated with unproductive program assets. This action, although requiring a change in existing legislation, would follow generally accepted accounting principles and would provide a practical approach for helping to resolve the problem of unrecovered costs. By writing off unproductive assets in 1984 and 1985 (without legal authority), DOE reduced the unrecovered costs at that time to about $3.4 billion. Our August testimony states our opposition to bills being considered by the Congress that would require the new corporation to recover only $364 million of these costs.

6. If already determined, the asking price for the asset. Not applicable.

7. If bids or proposals have been received, provide the names of the competitors. Not applicable.

Proposed Land Exchanges

One other type of federal asset disposal activity that may be of interest concerns land exchanges. At the request of the Chairman, Subcommittee on Public Lands, Reserved Water, and Resource Conservation, Senate Committee on Energy and Natural Resources, we reviewed and reported on the land exchange activities of the Department of the Interior's Bureau of Land Management (BLM) and the Department of Agriculture's Forest Service (GAO/RCED-87-9, Feb. 5, 1987). At the time of our review, BLM was managing more than 340 million acres and the Forest Service about 190 million acres—together about 70 percent of all federal lands.

We reported that the land exchange process was generally working well. For example, both BLM and the Forest Service had established and followed procedures governing land exchanges, thereby protecting the public interest. Some opportunities existed, however, to improve the processing of exchange proposals. In some cases BLM waived the collection of cash equalization payments and thus did not attain equal value. In other cases both agencies adjusted the unequal appraised values and thus did not collect the payments to completely equalize the values. We recommended that Interior and Agriculture comply with the laws governing land exchanges that do not allow adjusting the appraised value and that Interior stop waiving cash equalization payments. Agriculture disagreed with our recommendation and planned to take no action. Interior agreed with our recommendations and has directed BLM to stop adjusting appraisals for the sole purpose of equalizing exchange values and waiving cash equalization payments.

Two major land exchange transactions recently proposed may be of particular interest—the Arctic National Wildlife Refuge and the Phoenix Indian School.

Arctic National Wildlife Refuge

The Department of the Interior has proposed to exchange the oil and gas rights on about 166,000 acres in the Arctic National Wildlife Refuge (ANWR) for about 896,000 acres of Native-owned lands in seven Alaska wildlife refuges. The exchange is planned with six groups of Alaskan Native Corporations. On July 7, 1988, we presented testimony on the results of our review of this proposed exchange before the Subcommittee on Water and Power Resources, House Committee on Interior and Insular Affairs (GAO/T-RCED-88-52).

On the basis of our review of the applicable laws, we believe that Interior has the legal authority to negotiate and administratively approve the proposed exchange, but the Native corporations cannot exercise

their oil and gas rights acquired under the exchange unless the Congress opens the coastal plain of ANWR for oil and gas development. Notwithstanding Interior's authority to administratively execute this exchange, we believe that the land exchange, as proposed, is not in the best interest of the government and that further consideration of the exchange should be discontinued for the following reasons:

- About three-fourths of the Native-owned lands the government would acquire would provide only limited additional benefits for wildlife and habitat protection.
- The exchange value of $539 million which Interior negotiated for the Native-owned lands is six times the appraised fair market value of $90 million.
- The values of the oil and gas tracts the Native corporations would acquire are highly uncertain because they are based on limited data, consequently,the actual value of the tracts may be significantly higher or lower than Interior's estimated value.
- Interior did not employ generally accepted methods for dealing with uncertainty in the lease sales—that is, requiring competitive bidding for the tracts and retaining a continuing monetary interest through a royalty provision in the actual amounts of oil and gas that may be produced.

In commenting on our draft report on the exchange, Interior disagreed with many aspects of the report as well as with our recommendation that further consideration of the proposed exchange be discontinued. On the basis of our evaluation of the comments, however, we see no change in the report's basic position that because of extensive shortcomings, any further consideration of the proposed exchange is not warranted. We are now incorporating Interior's comments into our final report, which will be issued shortly.

Phoenix Indian School

Interior proposes to exchange part of the land used for the Phoenix Indian School, valued by Interior at about $85 million, for about 118,000 acres of privately owned land in four tracts near the Big Cypress National Preserve in Florida, valued by Interior at about $49 million, and a cash payment of about $35 million. The proposal is the largest interstate land exchange ever attempted by the Department, according to Interior officials. Interior does not have the authority to make this exchange and requested legislative authorization from the House Committee on Interior and Insular Affairs. On July 27, 1988, the House

passed legislation authorizing Interior to complete the exchange as currently proposed. Bills have been introduced in the Senate to provide the authorization Interior needs to make the exchange.

At the request of the Chairman, House Committee on Interior and Insular Affairs, we reviewed and reported on Interior's real estate appraisals of the properties involved in this proposal (GAO/GGD-88-65, May 11, 1988). We reported that Interior's appraisals for three of the four Florida tracts generally met professional standards and government guidelines. The appraisal for the fourth tract, performed by a contractor for the state of Florida and accepted by Interior, did not comply with professional standards and could be overvalued by about $3 million to $4 million—which is less than 5 percent of the proposed transaction.

The appraised value of the Phoenix Indian School site, however, is speculative because it is based on a conjectural assumption about the density of development the city of Phoenix would allow on this land. The proportion of the appraised value that Interior used to reflect changed plans for the property and Interior's failure to provide for possible future value increases are, in our opinion, additional objections to the transaction. Primarily because of the indeterminable value of the school property, we believe that Interior's value does not provide a basis to proceed with the exchange as it is currently proposed. Furthermore, without a decision by the city on future zoning of the site, additional appraisals would not resolve the matter.

Interior's Assistant Secretary for Fish and Wildlife and Parks agreed with our overall facts but disagreed with our conclusions in two respects. First, he did not believe that Interior should insist on sharing the possible future increase in the value of the Phoenix Indian School property if the Florida property owners choose to defer completion of the contract. Second, he believed that in spite of the uncertainty of the allowable density in the Phoenix property, Interior's prorated value was reasonable and rational and did provide a basis to proceed with the exchange. We reported that we did not believe that either of these positions adequately recognized the government's interests in the Phoenix property's value.

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Related GAO Products

The Future of DOE's Uranium Enrichment Program (GAO/T-RCED-88-59, Aug. 10, 1988).

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